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Lending breaches get firm penalties

Springdale payday outfit fined \$42,000

BY BENJAMIN WALDRUM

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LITTLE ROCK — In a unanimous ruling Tuesday, the Arkansas State Board of Collection

Agencies issued a cease-and-desist order to Karnish & Hultquist Inc., doing business as Show Me the Money, for violating the Arkansas Check-cashers Act.

The Springdale-based payday lender lost its license to operate and must pay approximately \$42,000 in civil payments and customer refunds, according to the ruling.

Some of the board members had hoped for stiffer penalties.

"These people obtained a license after violating the law to begin with," said board member Rusty Guinn. "I don't think that they deserve leniency," he added. Board member Stephen Copley agreed. "They had plenty of notice of what the law was," Copley said. "These folks certainly had no intention of following the law in any form or fashion," he said.

Jeremy Hutchinson, an attorney for Show Me the Money, agreed to the charges and said his clients would surrender their license immediately.

Lara Karnish and Mike Hultquist applied for a check-cashing permit on July 19, 2006. They were cited in November by the board for multiple violations of the Check-cashers Act, including charging excess fees and failing to follow accepted payment arrangements, the lawsuit said.

Karnish and Hartquist avoided a hearing by entering into a consent order on Dec. 13, in which they admitted the violations, refunded certain overcharges of fees to customers and agreed to a \$10,000 fine. The board would suspend \$9,000 of the fine, so long as there were no further violations, the lawsuit said.

"We made them come in and talk to us, and at that point we felt like they understood," said Peggy Matson, the board's executive director.

Earlier, the board advocated a maximum penalty of \$168,000, or \$1,000 for each day in violation. As the investigation continued, it made more sense to link a fine to the number of violations, Matson said.

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A subsequent audit revealed nearly 60 violations of the act, the lawsuit said. Twenty-three of those were for accepting, without a formal agreement, less than the full amount, or "fee" payments, for customers repurchasing their checks.

In Arkansas, taking out a payday loan works like this: The customer writes a check for \$400, for example, and receives \$350 in cash.

The lender usually keeps the check for two weeks before cashing it.

A \$50 charge on a \$350 loan for 14 days equals 371 percent in annual interest. Under the Arkansas Check-cashers Act, a customer must repay the loan before the agreed-upon date or the lender must deposit the check. Once the loan is repaid or the check deposited, the customer can take out another loan by exchanging another check for cash and promising to repay the loan.

The annual interest rate on payday loans in Arkansas far exceeds the 17 percent limit on interest rate allowed on consumer loans by the state constitution. A bill to limit interest on payday loans to 17 percent failed to pass the Legislature this year.

Karnish and Hultquist had obtained a \$50,000 bond from State Farm Fire and Casualty Co. in order to obtain their license, the lawsuit said. The board will attempt to obtain the fines from that bond, Matson said.

"Making a claim on a bond sends a much bigger message to a check-casher than getting a whopping fine that collect on," Matson said, adding that the company that issued the bond would also have a claim against the pa

After the ruling, Michael Rowett, chairman of Arkansans Against Abusive Payday Lending, who attended the he was encouraged by the decision but acknowledged there was more work to be done.

"The underlying fact is it's still okay to charge triple-digit interest rates," Rowett said, adding that he believes tl Check-cashers Act is unacceptable.

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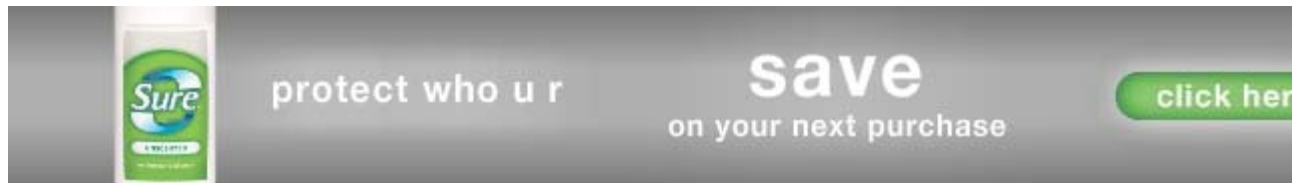


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